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D R A F T  
NPIC/TSSG/DED  
[REDACTED]  
25 March 1969

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~~Director, N-PIC~~ Director, N-PIC  
MEMORANDUM FOR: Executive Director, National Photographic Interpretation Center

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SUBJECT: Contract [REDACTED]

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1. On 31 May 1967, NPIC initiated the subject fixed price contract with [REDACTED] to develop an Advanced Rear Projection Viewer designated the NOD 110. The contract consisted of a three phase effort -- Phase I - the lens design, Phase II - the lens fabrication, and Phase III - the viewer fabrication. NPIC agreed to pay [REDACTED]

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[REDACTED]  
for Phase III. The viewer is to be constructed in accordance with the detailed technical specifications incorporated into the contract. The contract was structured so that [REDACTED] had to satisfy each phase before they could proceed into the next, and if they failed in any phase, they would not be paid for that or any subsequent phase regardless of the amount they had spent in attempting to achieve compliance with the specifications.

2. In a memorandum from Chief, Procurement Division, Office of Logistics dated 18 June 1968, NPIC was officially informed that [REDACTED] has decided to exercise their option to terminate the present contract for the reason that they cannot completely meet all the technical

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Excluded from automatic  
downgrading and  
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specifications. In requesting termination prior to completing Phase I, they forfeit any costs expended in their attempts to satisfy the specifications of that phase. It is assumed that if the contract is strictly terminated the FY-1967 funding cannot be used by NPIC for any other Rear Projection Viewer development effort such as contracting with another company to develop the instrument even though none of the FY-1967 commitment of [ ] was actually spent. It is understood that these funds are placed in a general fund unavailable to NPIC for specific development efforts.

3. Based on the above assumption, coupled with the following four factors, it seems prudent to attempt to investigate methods of modifying the contractual agreement with [ ]

a. The requirement that this viewer is being built to satisfy continues to exist. Specifically, the viewer is being constructed to aid in the exploitation of the vast film quantities produced by [ ]

b. Because of the large restrictions <sup>on</sup> of the FY-1969 budget, together with previously planned allocations of that budget, it appears rather unlikely that funds could be appropriated to coincide with the required development and production procurement cycle. This conclusion was drawn from an optimistic procurement schedule which will enable delivery of the first production viewer no earlier than April 1973 -- the prototype would be received no earlier than December 1970. A program with another contractor would obviously necessitate even a longer period of time for the development cycle because [ ] has practically completed the optical design.

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c. The proposals received in response to the original solicitation indicate that all of the other developers of <sup>continuous magnification</sup> rear projection type equipment have a rather low level of confidence in their ability to meet our specifications because all of those proposals were bid contingent to a cost type contract being formulated and at a much higher monetary level than [ ] proposed.

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d. After visiting [ ] and completing an investigation of their techniques and methods, [ ] NPIC's optical consultant, expressed the opinion that if anyone has the technical capability to build a continuous magnification viewer [ ] can.

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Based on these factors, it seems prudent to continue with [ ]

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4. The above restrictions seriously limit the realistic alternatives that should be considered to continue the development. The two most logical considerations are the following:

a. Add more money to the contract. Essentially this means increasing the Government's share of the costs of each phase of the contract. This would substantially reduce [ ] risk-of-success and increase the Government's risk of that success.

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b. Reduce the level of the Specifications of the contract, but keep the level of funding constant, e.g., only require [ ] to fabricate a viewer with a continuous magnification range from 3X to 30X, instead of the 3X to 70X requirement of the existing contract. Recent studies have shown that 30X will <sup>probably</sup> be the maximum magnification that the photointerpreters will require from rear projection systems. In their detailed analysis operations they will continue to use the

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microscope type system which inherently possess higher image quality characteristics than rear projection systems.

5. Under all contractual arrangements including the subject contract, [ ] has the potential of complete recovery of all of their development costs; the difference between the subject contract and the alternatives suggested above is the amount of risk they assume that they will make complete recovery. In the existing contract, [ ] must amortize the excess development costs over production units to make that recovery, which is a rather large risk. Under the first alternative the risk of recovery would be substantially reduced because they would be recovering a much larger portion of their costs as the development progressed. This is a substantial increase in the Government's risk because it reduces

[ ] incentive to produce a satisfactory viewer -- they have a very high incentive if they are forced to recover a large portion of their costs over production units. This alternative has an additional disadvantage in that it requires FY 1969 funding to be added to the present level of funding -- a possibility that is remote as discussed above; although not as remote as the situation where the complete viewer development had to be funded from FY 1969 funding.

6. The second alternative appears to be the best. It does not increase the Government's risk above that of the existing contract. Although it will allow [ ] to pursue an effort with a lower risk of technical success, it will not allow them to recover a greater percentage of their costs as in the first alternative. Selection of this alternative will require [ ] to recover a <sup>substantial</sup> portion of their costs over production units and it will not increase the total funding commitment that the Government is risking.

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7. One item that [ ] has proposed is that they give, in consideration for reducing their risk, their rights in the technical data. This can be of substantial value to the Government because competitive bids can be obtained for production viewers after the prototype system has proved to be successful.

8. It is therefore recommended that approval be given to allow TSSG, together with the Procurement Division, to formulate a Government position of reducing the magnification range of the subject contract to permit the fabrication of the Advanced Rear Projection Viewer to continue.

[ ]

Ch.TSSG

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Approved: [ ]

Executive Dir, NPIC

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Date

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